

STATEMENT BY
THE NATIONAL FEDERATION OF FEDERAL EMPLOYEES
BEFORE
THE HOUSE COMMITTEE ON POST OFFICE AND CIVIL SERVICE
ON
DUAL RETIREMENT CONTRIBUTIONS FOR FEDERAL EMPLOYEES
HIRED AFTER DECEMBER 31, 1983
SEPTEMBER 20, 1983

Mr. Chairman: We appreciate the opportunity to discuss the impact of social security and civil service retirement coverage on Federal workers hired on or after January 1, 1984. The issue is of pressing importance to current as well as future Federal employees and retirees.

Employees hired by the Federal Government after December 31, 1983 and employees who experience a break in service of more than one year, will contribute to and be covered by both social security and civil service retirement. Their total payroll deductions for retirement purposes will be 14 percent (7 percent for social security and 7 percent for civil service retirement). These deductions, coupled with the usual payments for Federal, State, and local taxes and health insurance, will place an extraordinary financial burden on new hires.

In 1982, Federal agencies spent \$93 million in special pay rates to recruit and retain qualified people in certain occupations. There is little argument that the Federal Government will experience even greater recruitment problems once the 14 percent deduction is implemented.

A partial, long-term solution will probably come in the form of a completely new retirement system for Federal workers covered by social security. The new system, which will either be integrated with social security or an add-on to it, will almost surely require less in employee payroll contributions than 14 percent. But it is doubtful the new system will be in place before late 1985.

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In the meantime, Congress must take steps to alleviate the financial burden on new employees and to facilitate the Government's recruitment efforts. In doing so, however, you must ensure that the following criteria are met.

First, there should be no disruption of revenue to the current Federal retirement programs. The General Accounting Office, as you know, estimates that new hires will contribute nearly \$500 million over the next two years to the various Federal pension systems. Should these funds be cut-off, the systems' financial posture would be weakened and benefits could be jeopardized for current and future retirees. This must not be allowed to happen.

The second test that should be met is one of equity between present employees and those hired after this year. Current civil service workers pay 7 percent of salary toward Federal retirement and 1.3 percent toward Medicare, for a total payroll deduction of 8.3 percent. In order to avoid dissension between present and new employees, and to ensure a certain degree of fairness between the two groups, civil servants hired after this year should also contribute 8.3 percent of salary toward retirement or a figure as close to that as possible.

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Several proposals are now being discussed as possible remedies to the problems that will be created by fully covering new employees with both social security and Federal retirement. One proposal that appears to meet our criteria would require new Federal employees to contribute the standard amount to social security (7 percent of the first \$37,500 in salary) and 1.3 percent to Federal retirement, for a total payroll deduction of 8.3 percent. In return, new civil service workers would be part of the current Federal retirement system until a new annuity program is designed and implemented. With respect to funding, Federal agencies would continue to make their contributions on behalf of new workers. In addition, however, a lump sum would be authorized to be paid to the Federal retirement systems by the Federal Government. This would make up the 5.7 percent contribution for which employees' would no longer be responsible.

NFFE could support this proposal. Yet, we could also support others should they meet the criteria summarized above. We simply urge Congress to recognize the severity of the pending problem and to work with all due speed to implement a viable solution.

This concludes my statement. I will be happy to answer any questions.